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JAPAN
RISING INTEREST RATES

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* Preparations Being Made for Higher Interest Rates

902A0122A Tokyo SHUKAN DAIYAMONDO in Japanese 3 Feb 90 pp 68-79—FOR OFFICIAL USE ONLY

[Text] **Toward a Turbulent Period**

An analysis was made of 120 companies in 12 prominent industrial groups to show which firms have improved and which firms have worsened their financial positions.

It is reported that the probability is strong that the official discount rate will be hiked again after the February general election. This is a big blow to companies with heavy debts. Then, which companies upgraded their financial positions to higher levels during the past 10 years? A comparison was made of 120 rival companies in 12 prominent industrial groups, including steel, automobiles and household electric equipment. Though ridiculed in the past for their low net worth, corporations which aggressively carried out huge lost-cost financing in domestic and foreign capital markets, with the backing of increasing earnings, now have favorable financial positions comparable to European and U.S.companies. Is your company fully prepared for the turbulent period of high interest rates?

Construction and Real Estate

(Nishimatsu Construction Co. has made a favorable turnabout, large general contractors are in the black and Mitsui Real Estate Development Co. is headed toward expansion.)

What is the status of construction and real estate circles which are receiving orders at a favorable pace and enjoying success through participation in the planning of big projects? Generally, they are strenthening their financial structures. Earnings are increasing but as compared with manufacturing companies with high value-added operations, such as food products, electric appliances and automobiles, the net worth ratio is only about 20 percent so they have weaknesses. The companies manifest the special characteristic of industries which are dependent on orders, i.e., a low profit margin. To get rid of this low profitability, the decisive question is how to increase the ratio of a "proposal-type business," which are created through independent planning and designing. That means a change from an "order-receiving" to an "order-creating" business. In such a situation, there are obvious differences among corporations. In this survey, Nishimatsu Construction Co. had the highest level of improvement in net worth ratio. The present net worth ratio is 18.3 percent and the degree of improvement was 6.7 points. Of course, further improvements are needed but it is certain that the strategy to strengthen the financial standing, which is President Taira Shibata's management policy, has advanced noticeably. When President Shibata assumed his position 7 years ago, he presented five basic courses of action: (1) strengthening order-receiving capability; (2) improving technical capability; (3) establishing overseas bases; (4) strengthening the financial position; and (5)promoting construction. Strengthening of the financial position means the repayment of loans to build up the net worth ratio. During the past 10 years, the debt ratio improved by 8.4 points, down from 18.4 to 6.0 percent, and the account balance turned to approximately Y3 billion in the black. Boosting the earnings growth might be said to be the big task for the future.

Taisei Corp., Ohbayashi Corp., Kajima Corp. and Shimizu Corp., the four large general contractors, are in the group which changed over to black in financial balance. Taisei Corp. issued unsecured convertible bonds amounting to Y50 billion in June 1986 to reduce the debts. In addition,the company took aggressive steps to procure low-cost capital, such as issuing dollar-denominated warrant bonds maturing in 1992-93, and strengthened the corporate structure. Likewise, Kajima Corp. issued convertible bonds, totaling Y30 billion, on two occasions in 1989 and has allocated the money to operating capital. Additionally, $400 million worth of overseas warrant bonds were issued in July 1989 to obtain funds for investments in and loans to overseas affiliated companies.

To strengthen its financial status, Shimizu Corp. is also making efforts to procure low-interest, long-term loans and reduce interest costs.

The amount of owned capital has been increasing steadily but the percentage has decreased as compared with 10 years ago. There were reasons for this. The main reason was that with the increase in the huge backlog of projects, there was a big increase in project-related balances, including expenditures or reimbursements for unfinished projects. Another reason was the bloating of funds for real estate development projects undertaken to diversify operations. The result was an increase in total assets exceeding the increase in net worth. To diversify operations, equity financing is now being carried out aggressively. If the rights are exercised for all of the convertible bonds as well as bonds issued in July 1989 with stock purchase rights, the net worth ratio will be 22.4 percent and exceed the level of 10 years ago. Real estate companies, too, are eager to obtain low-interest, long-term capital funds. Mitsui Real Estate Development Co. issued unsecured convertible bonds amounting to Y210 billion during the past 4 years. In March 1987, the company issued $200 million worth of dollar-denominated bonds with separated stock purchase rights. Proceeds were allocated as investment and loan funds to overseas companies incorporated abroad, such as Mitsui Real Estate New York which acquired the Exxon Building. Mitsubishi Estate Co. and Sumitomo Realty & Development Co. have also strengthened their financial positions noticeably. Mitsubishi's networth ratio of 34.2 percent is outstanding. It is the result of the buildup of a high-earnings structure. Sumitomo issued dollar-denominated bonds with stock subscription rights, totaling $600 million (approximately Y70 billion) in May 1987. Even prior to that, the company has been making efforts to procure low-interest, long-term loans. Because the income of the high-earning leasing department is increasing, the net worth ratio should rise further in the future.

Table 1. Construction and Real Estate

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Nishimatsu Construction Co.	11.6	18.3	6.7	18.4	6.0	8.4	51	2,944	2,893	2.9	2.5	*0.4	2.2	1.5
Hazama-Gumi, Ltd.	10.3	15.7	5.4	27.8	18.1	9.7	*4,894	*1,776	3,118	2.4	3.1	*0.7	1.9	4.6
Fujita Corp.	10.6	13.7	3.1	38.0	21.8	16.2	*3,473	*10,827	*7,354	1.6	3.4	1.8	2.0	6.3
Kumagai Gumi Co.	16.7	19.3	2.6	18.7	17.5	1.2	*252	*1,214	*962	3.9	1.9	*2.0	2.1	1.2
Taisei Corp.	17.9	20.3	2.4	20.8	12.3	8.5	*3,587	2,584	6,171	2.2	2.9	0.7	1.9	2.5
Ohbayashi Corp.	12.4	14.6	2.2	33.2	11.6	21.6	*9,436	2,205	11,641	2.3	2.6	0.3	2.0	3.5
Haseko Corp.	21.0	22.33	1.3	18.4	33.5	*15.1	930	*15,663	*16,593	6.4	4.6	*1.8	3.5	2.1
Tobishima Corp.	8.0	9.3	1.3	18.7	18.3	0.4	*885	*5,925	*5,070	2.2	1.8	*0.4	1.9	2.3
Kajima Corp.	17.8	16.1	*1.7	19.7	13.4	6.3	*538	4,179	4,717	3.4	3.1	*0.3	2.2	1.9
Shimizu Corp.	18.2	15.8	*2.4	15.5	11.7	3.8	*1,330	590	1,920	3.4	2.9	*0.5	2.2	2.4
Average of 10 Companies	14.5	16.5	2.0	22.6	16.4	6.2	—	—	—	3.1	2.9	*0.2	2.1	1.3
Sumitomo Realty & Development Co.	6.3	24.7	18.4	69.6	46.2	23.4	*6,590	*7,367	*777	3.6	4.2	0.6	3.3	To Surplus
Mitsubishi Estate Co.	22.1	34.2	12.1	49.8	14.0	35.8	*15,267	*11,524	4,743	6.5	7.6	1.1	2.5	3.8
Mitsui Real Estate Development Co.	15.9	22.2	6.3	55.8	42.1	13.7	*13,877	*29,490	*15,613	5.5	4.9	*0.6	3.6	5.5
Average of 3 companies	14.8	27.0	12.2	58.4	34.1	24.3	—	—	—	5.2	5.6	0.4	2.1	4.3

Explanatory notes on tables: 1. Statistical research includes account settlements up to October 1989; 2. Company averages for 10-year sales and current profits are weighted averages, others are simple averages; 3. # mark denotes annual conversions and * mark denotes minus, or worsening.

Household Electric Equipment

(Sony has an outstanding procurement capability and the Matsushita Group has a solid financial foundation.)

The net worth ratio of the household AV (audio-visual) equipment circle is generally at a high level with Pioneer Electronic Corp. leading at 77.5 percent and the industry averaging approximately 54 percent. As compared with 10 years ago, there has been a 5-point improvement.

Matsushita Electric Industrial Co., Kyushu Matsushita Electric Co. and Matsushita-Kotobuki Electronics Industries of the Matsushita Group are all conducting "loan-free" [direct financing] operations and as for Matsushita Electric Industrial, the net increase in financial balance during the past 10 years reached Y77.8 billion which, as an absolute sum, far exceeds Sharp Corp.'s recurring profits of Y55.2 billion. In this light, the Matsushita Group possesses a solid financial foundation and appears as the very picture of an excellent corporation.

However, Akio Tanii, president of Matsushita Electric Industrial, states flatly that, "Matsushita is no longer a superior corporation." The improvement points of the ratio of operating profits to total liabilities and net worth should be examined. All of the companies in this industry, including Matsushita, have declining operating profit ratios which are not keeping up with the bloating of total assets. As a result, the degree of improvement for all the companies has worsened.

Kenwood Corp. is the only company where the increase in sales exceeded the increase in total assets, a factor which reveals how big the recovery of this company was over the past 10 years (then called the Trio-Kenwood). Matsushita, Sony and Pioneer Electronic Corp. have not been able to keep up with the increase in total assets but are showing a nearly corresponding growth rate; Victor Co. of Japan increased sales only three-fold while its total assets increased by over eight times; and Sanyo Electic Co. is leading in improvement points for net worth ratio through merger with Tokyo Sanyo Electric Co. but is having difficulties with the swelling of total assets and the low 0.5-percent operating profit ratio.

Sharp Corp. is showing market progress. As compared with 10 years ago, the company's financial balance has increased almost 10 times to Y21.6 billion but long- and short-term loans have increased 14 times to Y233.8 billion. Interest payments on loans have increased but the company is earning receivable interests and dividends which slightly exceed that.

According to Sharp, the policy is that, "10 years ago, we had prided ourselves on "loan-free" operations but recently, we do not take the trouble to repay if there are any profitable operations that can be continued." The company says that with easy financing available, surplus funds will be used to pursue "higher profitability while maintaining safety and flexibility" and "try to maintain earnings of over Y20 billion in the future," but with rising interest rates, the company will probably be hampered by loan constrictions.

In fund procurement and sophisticated financial management, Sony is outstanding. Outwardly, the improvement in net worth ratio appears small because the fiscal year ended March 1989 was used as the basis but during the April-September mid-term period, the ratio recovered by a wide margin to 64.7 percent and the company leads (except for Sanyo with the merger effect) in the degree of improvement. All of the divisions are operating favorably, including foreign sales of 8mm video, audio, TV and electronic parts, and the profit increase percentage for the mid-term period reached 31 percent.

CBS Records was purchased in 1988 but loans decreased Y62.6 billion while the owned capital increased Y373 billion. Through convertible bonds and public offerings, which fully utilized the high share values, Y200 billion were procured immediately for the capital increase and purchasing funds were pratically covered by the owned capital.

Supported by the outstanding business performance which broke historic high records for all indexes (current deposits on a consolidated basis and liquid securities totaled Y537.5 billion at the end of the mid-term period), the purchase of Columbia Pictures will probably increase loans by about Y300 billion but most of the funds will probably be acquired through financing anticipated shortly.

Table 2. Household Electric Equipment

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Sanyo Electric Co.	32.2	57.2	25.0	1.0	4.5	*3.5	3,591	8,497	4,906	3.4	0.5	*2.9	1.9	1.4

Table 2. Household Electric Equipment (Continued)

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Matsushita Electic Industrial Co.	48.3	60.2	11.9	0.0	0	0	23,433	101,208	77,775	6.0	4.8	*1.2	2.5	2.4
Sharp Corp.	31.1	42.7	11.6	6.3	19.7	*13.4	2,174	21,630	19,456	4.5	2.3	*2.22.9	3.3	
Victor Co. of Japan	44.0	49.8	5.8	4.0	0	4.0	635	2,362	1,727	5.8	0.9	*4.9	3.3	2.4
Pioneer Electronic Corp.	73.9	77.5	3.6	0	0	0	1,440	2,254	814	15.5	8.1	*7.4	1.9	1.4
Sony Corp.	50.6	54.1	3.5	7.3	0.1	7.2	3,415	13,085	9,670	6.6	3.5	*3.1	3.0	2.4
Matsushita-Kotobuki Electronics Industries	60.6	70.3	*9.7	0	0	0	125	5,433	5,308	11.0	5.4	*5.6	2.4	3.3
Kenwood Corp.	37.8	26.7	*11.1	7.9	2.9	5.0	160	307	147	3.0	2.5	*0.5	5.6	2.5
Kyushu Matsushita Electric Co.	65.2	46.5	*18.7	0	0	0	529	3,109	2,580	8.4	8.1	*0.3	3.8	4.2
Average of 9 Companies	49.3	53.9	4.6	2.9	3.0	*0.1	—	—	—	7.1	4.0	*3.1	3.5	2.4

Automobiles

(Toyota-affiliated companies are showing good performances supported by earning power and other companies, too, are making progress in strenghtening their financial conditions.)

The automibile industry, which has been breaking domestic sale records for 8 continuous years, is generally making progress toward strengthening its financial status while expanding business operations. With "loan-free" operations and earning power as "Japan's foremost leader in profits," Toyota Motor Corp. in particular is showing an astounding performance of 59.4-percent record in net worth ratio and Y140 billion in earnings through an aggressive financial strategy combining profit savings and financing. The improvement range for the past 10 years is relatively narrow but it indicates that the company is further strengthening its financial status. Two other companies of the Toyota Group, Nippondenso Co. and Aisin Seiki Co., have also topped 50 percent in net worth ratio and are conducting "loan-free" operations.

Hino Motors and Honda Motor Co. reduced debts, increased net worth ratios and moreover, raised operational profit ratios. Hino Motors is striving to attain its immediate objective of 40-percent net worth ratio (presently, 32 percent, an improvement of 11.6 percent over

the last 10 years) and the cumulative results of low-interest capital procurement through convertible and warrant bonds, investments to rationalize energy conservation and parts and material cost reduction efforts are bearing fruit.

As for Honda, the main factors contributing to improvements were increased profits through sales expansion and leveraged use of the cheap yen and successful reductions in external debts. The present net worth ratio is 46 percent, an improvement of 9.6 percent over the past 10 years. Regarding this achievement, the company considers it as only one of the results of the operations conducted up until now and even in the future, from the standpoint of promoting the structural augmentation of the entire group, including related collaborating manufacturers and overseas subsidiaries, the company will not be swayed by statistics, per se.

Fuji Heavy Industries showed the biggest improvement of 21 percent (from 17.2 to 38.2 percent) in net worth ratio. In addition to the Y126.8-billion increase (from Y19 to Y145.8 billion) in capital and capital reserve through aggresssive financing, the only Y91-billion increase (from Y20.1 to Y111.1 billion) in profit accumulations was a big factor. Loans increased approximately 14 percent but in financial earnings, approximately Y6 billion can be gained. However, as for FY89 performance, because of the poor sales of smaller cars, delay in U.S.sales of the new model, "Legacy," etc., the first half will show a deficit. In FY90, the company expects to recover business by expanding sales through introduction of new-model compacts and establishment of small dealerships specializing in "Legacy" sales but in any event, only by persisting in its primary business operations will the augmentation of the financial structure show results.

On the other hand, Yamaha Motor Co. and Daihatsu Motor Co. lowered their net worth ratios. In Daihatsu's case, a merger was carried out in 1981 and because of the amalgamation with the sales company with a relatively weak financial status, improvement was slower than other companies.

Table 3. Automobiles

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Fuji Heavy Industries	17.2	38.2	21.0	25.9	12.2	13.7	28	5,963	5,991	4.4	0.4	*4.0	2.0	1.5
Mazda Motor Corp.	16.2	32.7	17.3	40.4	19.0	21.4	2,318	*1,480	*3,798	1.8	1.5	*0.3	2.3	1.3
Hino Motors	20.4	32.0	11.6	31.3	7.6	23.7	413	1,623	1,210	4.1	6.1	2.0	1.6	2.0
Aichi Machine Industry Co.	17.5	27.5	10.0	25.3	10.5	14.8	*964	*199	765	8.7	4.7	*4.0	2.2	1.1
Aisin Seiki Co.	40.2	50.1	9.9	2.3	0.0	2.3	1,009	2,534	1,525	11.1	5.3	*5.8	2.3	1.5
Honda Motor Co.	36.4	46.0	9.6	18.6	2.9	15.7	364	4,188	3,824	5.7	5.7	—	2.9	3.0
Suzuki Motor Co.	23.2	31.4	8.2	11.7	8.8	2.9	*581	4,681	5,262	5.1	2.5	*2.6	3.0	2.1
Nissan Motor Co.	40.6	48.2	7.6	17.2	18.6	*1.4	28,446	21,564	*6,882	5.9	3.0	*2.9	1.6	1.3
Mitsubishi Motors	11.9	18.9	7.0	17.2	32.3	*15.1	4,351	*6,335	*10,686	4.6	3.8	*0.8	2.2	1.2

Table 3. Automobiles (Continued)

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Isuzu Motors	19.4	25.9	6.5	29.0	13.6	15.4	*1,752	*6,155	*4,403	6.0	2.0	*4.0	1.7	—
Nippondenso Co.	43.3	50.0	3.7	1.4	0.0	1.4	1,083	11,265	10,182	13.3	8.5	*5.0	2.9	2.0
Nissan Diesel Motor Co.	13.6	16.3	2.7	41.3	48.3	7.0	*1,669	*320	1,349	3.2	1.4	*1.8	1.6	1.1
Toyota Motor Corp.	57.9	59.4	1.5	0.0	0.0	0.0	29,345	139,032	109,687	11.0	7.5	*3.5	2.3	3.0
Yamaha Motor Co.	27.4	27.3	*0.1	20.4	17.9	2.5*	1,479	*2,057	*3,536	3.8	3.3	3.3	*0.5	1.4
Daihatsu Motor Co.	40.6	30.1	*10.5	6.0	14.0	8.0	1,842	5,147	3,305	5.7	2.8	*2.9	2.3	1.3
Average of 15 Companies	28.3	35.6	7.3	19.2	13.7	5.5	—	—	—	4.3	3.9	*0.4	2.2	2.0

Iron and Steel

(Kawasaki Steel, Nippon Steel and Sumitomo Metal Industries lead in debt reductions while Daido Steel shows noticeable improvement.)

Utilizing the opportunity created by the steep drop in deficits through yen appreciation, the iron and steel industry has been aggressively pushing forward rationalization. As a result, cost competitiveness has improved noticeably and supported by a strong domestic demand, companies with new historic highs in earnings are appearing one after another. The key to strengthened financial status is the reduction of fixed costs. Together with the reduction in labor costs through personnel cutbacks, the decrease in financial expenses through debt redemptions is a big contributing factor. Supported by the business recovery based on expanded domestic demand, Nippon Steel Corp. led off with the issuance of Eurodollar-denominated warrant bonds in July 1988 and the iron and steel industry has been aggressively conducting equity financing (capital procurement through issuance of new shares) in order to acquire low-cost funds. Funds thus procured are switched to debt repayments to lessen the interest burden.

Kawasaki Steel, which took the lead in loan reductions, decreased interest-bearing liabilities by Y139.6 billion during the fiscal year ended March 1989 and the balance, Y795.1 billion, was below the Y800-billion level for the first time. Kobe Steel and Sumitomo Metal Industries also made big reductions in interest-bearing debts during the fiscal year ended March 1989 and the respective balances fell below Y1 trillion. Thus, Nippon Steel, Kawasaki Steel and Sumitomo Metal Industries placed the net worth ratio on the 20-percent level. As compared with 10 years ago, the net worth ratio which had been about 10 percent was raised to the 20-percent level so it means than an improvement of about 10 percent was made in 10 years.

Even during this fiscal period ending March 1990, large steel manufacturers have been actively procuring funds from the capital market. Heretofore, each company had issued overseas warrant bonds and domestic CB's (convertible bonds) but since the start of the April 1989-March 1990 fiscal period, all of the companies are raising capital through issues at market prices. The funds will be used for plant andequipment investments and loan redemptions. Thus, the financial position will be further improved.

Of all the companies, Daido Steel Co. stands out with the most noticeable improvement in net worth ratio over the past 10 years. The company had a deficit of Y2.2 billion in account balance during the April 1988-March 1989 fiscal year but made a turnabout to a surplus, though slight, of Y4 million during the April-September 1989 mid-term period. It is estimated that the surplus will

increase during the second half of the fiscal period ending March 1990 and exceed Y500 million for the fiscal year. Because of increased costs of raw materials, the company will suffer operational losses for the fiscal year but owing to the markedly favorable turn in fiscal balance, recurring profits are expected to be maintained.

Tokyo Steel Manufacturing Co., which had already realized a surplus in fiscal balance during the fiscal year ended March 1989, had been vigorously expanding the surplus to Y995 million for the April-September 1989 period and is striving for the Y2-billion level for the fiscal year ending March 1990.

Table 4. Iron and Steel

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Daido Steel Co.	10.3	31.3	21.0	37.9	27.7	10.2	*3,642	*2,238	1,404	7.6	5.4	*2.4	1.2	2.0
Tokyo Steel Manufacturing Co.	31.1	47.5	16.4	2.5	0.0	2.5	*1,439	201	1,640	17.0	21.7	4.7	1.4	2.7
Nisshin Steel Co.	15.0	27.0	12.0	35.7	10.9	24.8	*15,767	*6,705	9,062	4.8	11.5	6.7	1.4	2.8
Kawasaki Steel Corp.	9.9	21.7	11.8	50.7	35.8	14.9	*59,372	*35,642	23,730	6.9	8.1	1.2	1.1	2.4
Nakayama Steel Works	8.1	19.5	11.4	59.0	38.9	20.1	*6,485	*5,111	1,374	13.9	10.6	*3.3	1.4	1.3
Sumitomo Metal Industries	8.9	20.0	11.1	52.3	40.2	12.1	*74,312	*41,066	33,2465	5.5	8.9	3.4	1.0	1.6
Hitachi Metals	30.3	38.7	8.4	24.3	12.6	11.7	*2,506	*1,169	1,337	8.4	5.5	*2.9	1.5	1.6
Nippon Steel Corp.	13.7	20.8	7.1	39.8	29.6	10.2*	*113,209	*62,074	51,135	5.7	7.7	2.0	1.0	2.0
NKK Corp.	8.1	13.4	5.3	48.0	41.6	6.4	*86,097	*60,052	26,045	4.2	7.7	3.5	1.1	5.1
Kobe Steel	10.7	14.3	3.6	48.1	31.9	16.2	*48,439	*42,028	6,411	7.7	5.3	*2.4	1.3	1.6
Average of 10 Companies	14.6	25.4	10.8	39.8	26.9	12.9	—	—	15,538	8.2	9.2	1.0	1.1	2.4

Machinery and Shipbuilding

(Nippon Seiko KK makes noticeable improvements through high value-added strategy and Okuma Machinery Works repays all loans.)

In the machinery industry, production is dependent on orders so business booms and slumps have amplified effects on the industry. It had been normal for machine tool and industrial machinery circles to receive a flood of orders in good times and face extremely sharp drops in bad times. Fluctuations in sales, themselves, are big and profitability is swayed greatly by them.

An examination of the large 10 representative companies shows that only half increased their sales by two-fold or more as compared with 10 years ago. The same is true of

recurring profits and the average 10-year increase for the 10 companies combined is limited to 1.6 times in both sales and recurring profits.

The current robust economy has continued for an unprecedented lengthy period and every machinery company has received a greatly increased number of orders and carry an abundant work load. The upgrade in profitability is also striking and the extent of progress each company can make toward improving its financial status during this period will differentiate one company from the other. That is an issue involving not only the financial status but the manner in which business operations are conducted.

Nippon Seiko, Okuma Machinery Works and Daikin Industries, which have made big improvements in the net worth ratio, have changed their business operations and developed operational structures which are strong even in a weak economy. Nippon Seiko has switched from ballbearings to increased production of machinery parts using bearings and is accomplishing the objective of high value-added processing. Okuma increased its competitiveness through production of NC (numerically controlled) apparatus in its own plant and achieved hefty increases in sales and recurring profits. From simple production machines, machine tools have been systematized in their uses to enhance plant productivity. Machinery innovations are necessary even during business slumps so demand can be anticipated even if the economy is bad. Technological capabilities to respond to such demands are being sought and here is where corporate differences appear.

As an integrated manufacturer of air conditioners, Daikin Industries has expanded production for household and office uses which has led to improved earnings. These three companies were able to increase their net worth ratios principally through fiscal period profits. In 1989, Nippon Seiko and Okuma issued warrant and convertible bonds so further improvements in their financial conditions can be expected in the future.

In shipbuilding circles, Mitsubishi Heavy Industries is far ahead of other companies in both operational standards and improvements. While other companies were in the red and could not undertake financing, Mitsubishi issued warrant bonds regularly and corporate differences are expected to widen further.

Shipbuilding companies achieved a balance at a reduced level through decreased operations, including personnel reductions, and are regaining profitability.

Because it has not carried out large-scale rationalization, Mitsubishi is inferior in efficiency but is maintaining profitability through different business operations and fiscal structuring. Diversely deployed sectors, such as machinery and aircraft, are earning profits and shipbuilding is recovering. The comeback of shipbuilding will spur further increases in profitability.

Business performances of each company are recovering rapidly and financing will become possible for Ishikawajima-Harima Heavy Industries, which resumed dividend payments, and for Kawasaki Heavy Industries, which will resume payments this fiscal period, but it will difficult for other companies to close the gap with Mitsubishi.

Table 5. Machinery

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Nippon Seiko KK	20.3	49.7	29.4	35.0	8.5	26.5	*3,894	3,061	6,955	2.9	3.2	0.3	2.4	8.2
Okuma Machinery Works	29.8	[illegible]	26.8	33.0	0.0	33.0	*275	468	743	6.4	8.3	1.9	3.7	5.9
Daikin Industries	21.4	41.9	20.5	23.1	10.5	12.6	*3,223	327	3,552	4.7	10.7	6.0	2.7	15.4
Toshiba Machine Co.	16.6	36.7	20.1	31.6	22.3	9.3	*1,624	*1,124	500	7.5	4.1	*3.4	1.7	1.2
NTN Toyo Bearing Co.	21.3	40.6	19.3	40.2	11.1	29.1	*3,266	*368	2,898	3.1	3.5	0.4	2.1	16.4
Komatsu Ltd.	27.3	46.2	18.9	30.5	12.3	18.2	4,236	11,089	6,853	4.8	2.5	*2.3	1.4	0.8

Table 5. Machinery (Continued)

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Amada Co.	42.9	52.1	9.2	2.7	0.0	2.7	31	2,849	2,818	10.3	4.8	*5.5	2.1	2.0
Sumitomo Heavy Industries	10.9	18.1	7.2	46.3	34.8	11.5	*7,112	*4,659	2,453	*0.6	1.1	1.7	1.3	4.5
Kubota Ltd.	40.6	47.2	6.6	3.9	4.3	*0.4	*4,636	1,748	2,888	7.3	4.9	*2.4	1.3	1.0
Niigata Engineering Co.	17.3	18.7	1.4	38.0	49.5	*11.5	*3,240	*4,594	*1,354	3.3	2.5	*0.8	1.0	0.9
Average of 10 Companies	24.8	40.8	15.9	28.4	15.3	13.1	—	—	—	5.0	4.6	*0.4	1.6	1.6

Table 6. Shipbuilding

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Mitsubishi Heavy Industries	9.5	23.2	13.7	32.9	14.7	18.2	*5,194	16,989	22,183	1.0	2.1	1.1	1.3	4.7
Ishikawajima-Harima Heavy Industries	7.3	12.5	5.2	43.5	31.3	12.2	*9,523	1,369	10,892	0.0	1.2	1.2	0.9	—
Mitsui Engineering & Shipbuilding Co.	14.2	18.8	4.6	42.7	39.8	2.9	*2,361	*2,639	*278	*1.1	*5.9	*4.8	0.7	—
Hitachi Zosen Corp.	11.8	12.8	1.0	52.3	45.1	7.2	*6,744	*10,432	*3,688	0.5	0.2	*0.3	0.9	—

Table 6. Shipbuilding (Continued)

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Kawasaki Heavy Industries	15.1	9.6	*5.5	39.9	36.8	3.1	*7,195	*12,141	*4,946	1.1	3.0	1.9	1.5*	26.2
Average of 5 Companies	11.6	15.4	3.8	42.3	33.5	8.8	—	—	—	0.3	0.1	*0.2	1.2	8.5

Heavy Electric Machinery and Computers

(Hitachi has excellent financial standing and Omron Tateishi Electronics is manipulating capital through a quadripolar arrangement.)

What is the situation with heavy electric machinery manufacturers?

Hitachi, Ltd., Toshiba Corp., Mitsubishi Electric Corp. and other manufacturers have incresed their net worth ratios and strengthened stability. Hitachi, in particular, has lowered the loan ratio by 13.8 points, earned a surplus of Y44.9 billion in account balance and excels in earnings growth. Toshiba doubled the net worth ratio from 15-percent to 30-percent level and is approaching Hitachi's level. Telecommunications and computer companies, including NEC Corp. and Fujitsu, Ltd., have rapidly decreased the loan ratio and are headed toward improvement.

Among the companies, Omron is the only firm to surpass the 50-percent level in net worth ratio and attained 59.2 percent. In June 1989, the company carried out Y67-billion worth of financing and is issuing convertible and warrant bonds. Capital appreciation through financing has increased nearly Y60 billion as compared with 5 years ago. Also, since last year, the company started "loan-free" operations and there are hardly any bill discounts today with fund procurement being switched to CP's (commercial papers). Since March 1988, the fiscal balance has changed over into the black.

Omron's fiscal strategy is based on soundness, i.e., it is very passive about sophisticated financial management. However, the company is aggressive concerning the effective manipulation of funds and for the past 4 or 5 years, emphasized the acceleration of recovery as the top priority. Omron has increased cash payments from about 1975 and has deliberately recovered liquid assets by advancing payments. This action bore fruit and the turnover rate of book credits improved from the 6.1 month rate of 10 years ago to 3.9 months.

However, the company is taking the position that, "We have not engaged at all in sophisticated financial management and manipulated mostly large fixed funds, but in the future, if profits can be earned with certainty, we shall aggressively pursue that course," (Kimio Kawashima, chief of Tokyo finance division). The company is also considering investments in bonds.

Furthermore, since 1989, Omron has been working aggressively toward the recovery of balances in local manufacturing subsidiaries. Omron has production subsidiaries scattered throughout local districts and funds had been left idle at these subsidiaries until now. Under such circumstances, efficiency in fund operations will drop.The important task for the future is to speedily collect funds held by local subsidiaries and turn them over to high-yield operations. Concrete details have yet to be worked out but the plan is to reduce fund balances of approximately Y10 billion dispersed locally to about Y1 billion within the next 3 years.

Omron is establishing a quadripolar arrangement, with bases in Japan, United States, Europe and Asia-Pacific, and pushing globalization of the financial sector at the same time. The company's financial headquarters is dispatching financial administrators, called controllers, to companies with regional jurisdictions in Europe and Asia-Pacific to formulate financial strategies as consultants to the top executives. Assignments to the United States, too, are expected to be made this spring. "Basically, the future policy is to procure locally funds that are needed locally and we are considering local listings of our stocks (Tokyo finance division chief, Kawashima). Also, as the quadripolar setup is established, controllers will cooperate with each other in the future and manipulate funds from a global standpoint.

Table 7. Heavy Electric Machinery and Computers

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Omron Tateishi Electronics Co.	31.9	59.2	27.3	16.9	0	16.9	*973	1,420	2,393	8.2	10.4	2.2	3.2	4.2
Toshiba Corp.	15.8	30.3	14.5	23.1	8.6	14.5	*11,570	151	11,271	5.7	6.6	0.9	2.3	4.1
NEC Corp.	15.1	28.2	13.1	36.3	11.4	24.9	*13,854	*9,597	4,257	3.7	5.1	1.4	4.1	8.8
Mitsubishi Electric Corp.	14.4	27.3	12.9	22.4	9.8	12.6	*12,088	5,951	18,039	6.2	6.3	0.1	2.3	2.7
Fujitsu, Ltd.	25.7	37.3	11.6	27.8	14.4	13.4	*7,030	*7,691	*661	5.0	5.6	0.6	4.5	6.4
Hitachi, Ltd.	24.0	34.8	10.8	21.9	8.1	13.8	3,124	44,912	41,788	7.2	5.1	*2.1	2.1	2.3
Oki Electric Industry Co.	17.4	25.8	8.4	38.2	27.5	10.7	*3,391	*5,793	*2,402	3.5	5.0	1.5	3.6	17.8
Fuji Electric Co.	14.6	21.2	6.6	28.0	14.9	13.1	*2,812	1,412	4,224	3.0	3.2	0.2	1.9	2.9
Average of 8 Companies	19.8	33.0	13.1	26.8	11.8	15.0	—	—	—	5.3	5.9	0.6	2.7	3.6

Chemicals

(Fuji Photo Film Co., Shin-Etsu Chemical Co. and Sekisui Chemical Co. are the three leading companies in improvements.)

A survey of the recent 10-year change focused on assets of the main 15 companies in the chemical industry shows that the average net worth ratio increased from the 19.2 percent of 10 years ago to 30.5 percent, a big jump of 11.3 percent. The operating profit ratio to total liabilities and net worth also increased by 2 percent, from 5.1 to 7.1 percent. During this period, sales growth was limited to 1.6 times because of the drop in crude oil prices but recurring profits rose sharply by 5.9 times. A big improvement in earnings is indicated.

An examination of the fiscal balance reveals that of the 15 companies, only two—Shiseido Co. and Kao Corp.—were in the black 10 years ago but at present, a majority of eight companies are in the black so a drastic change has occurred. Also, the average of loan ratio to total assets dropped from 39.6 to 24.6 percent, an improvement of 15 percent. With the exception of Ube Industries, 14 of the 15 companies have improved (Shiseido is continuing "loan-free" operations).

A study of the trends of individual corporations within the circle shows that Fuji Photo Film is the leader in both absolute levels and improvement rates. The net worth ratio increased by 27.3 percent to 67 percent and the profit ratio to total liabilities and net worth climbed from 9.2 to 12.7 percent. The fiscal balance improved by Y32.2 billion to a surplus of Y29.7 billion and together with Shiseido, Fuji joined the ranks of "loan-free" companies.

In addition to augmentation of the financial standing through capital procurement with market-price issues, floatation of warrant bonds and debentures convertible at market prices, etc., robust earnings are contributing to

the strengthening of the assets structure so the company is maintaining a favorable business cycle. From Japan's leader, Fuji is rapidly overtaking the giant, Kodak, to become the world's top company in the film market.

Shin-Etsu Chemical Co. and Sekisui Chemical Co. are striving to keep pace with Fuji Film. Shin-Etsu shows growth in fine products centered on electronics-related materials, including semiconductor silicon and silicone resins. With the recovery of polyvinyl chloride, the company has maintained a high growth rate in the chemical industry. The company raised the net worth ratio from 19.1 to 39.5 percent and turned the fiscal balance into the black. Loans were lessened by over one-tenth, from Y283.8 to Y26.6 billion.

With both housing and chemical products sectors operating favorably, Sekisui Chemical has also increased the profit ratio by a wide margin. With the issuance of warrant and convertible bonds, debts of nearly Y400 billion were practically wiped out at a stroke. The net worth ratio was boosted from 9.7 to 34.6 percent.

In addition, of the petrochemical companies which had generally weak financial structures, Mitsubishi Petrochemical Co. is showing a noticeable improvement. The strategy of placing top priority on financial improvement, coupled with the good market for general-use petrochemical products, enabled the company to sharply decrease debts, which had exceeded Y500 billion, to a little over Y150 bilion. Business operations were turned aggressively to the offensive with the decision to construct a new ethylene plant, the first in the industry. Also, in the petrochemical circle, Mitsubishi Chemical Industries ranks second in the improvement rate of financial conditions.

The company which had a basically high financial status but which did not show much improvement over the past 10 years is Shiseido. Unable to ride with the tide of individualized tastes in consumption and pressured by inventory gluts, the company was forced to start all over again. The company is undergoing a trying ordeal to rebuild its cosmetics empire. Kao Corp. is showing a favorable business performance but is falling short in financial improvements. It probably reflects a management attitude emphasizing aggressive investments over financial augmentation. Ube Industries, the only company which worsened fiscal balances and loan ratios, resumed dividend payments during the fiscal year ended March 1989. Since it embarked on an aggressive financial strategy, the company is expected to show results in the future.

Table 8. Chemicals

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Mitsui Toatsu Chemicals	7.9	11.7	3.8	58.7	46.2	12.5	*17,469	*12,929	4,540	2.4	9.3	6.9	1.3	To Surplus
Showa Denko KK	13.0	17.0	4.0	56.2	42.9	13.3	*12,323	*12,176	147	1.5	7.5	6.0	1.7	To Surplus
Sumitomo Chemical Co.	18.7	18.4	*0.3	37.7	34.0	3.7	*13,926	*6,253	7,673	3.3	6.3	3.0	1.3	4.5
Mitsubishi Chemical Industries	11.6	17.9	6.3	55.6	34.3	21-.3	*23,906	*2,241	21,665	2.3	4.9	2.6	1.3	12.3
Tosoh Corp.	12.8	17.4	4.6	60.0	44.2	15.8	*8,741	*4,988	3,753	5.1	4.4	*0.7	1.5	3.8
Shin-Etsu Chemical Co.	19.1	39.5	20.4	48.7	9.4	39.3	*2,174	818	2,992	7.4	8.0	0.6	2.4	5.4

Table 8. Chemicals (Continued)

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Kyowa Hakko Kogyo Co.	18.2	39.1	20.9	30.2	11.9	18.3	*3,725	782	4,507	7.3	7.7	0.4	1.8	3.2
Mitsui Petrochemical Industries	13.4	24.7	11.3	54.5	33.1	19.4	*10,489	*5,967	4,552	5.0	8.0	3.0	1.4	11.6
Mitsubishi Petrochemical Co.	10.0	25.2	15.2	58.9	31.2	27.7	*11,540	4,860	16,400	5.1	11.0	5.9	1.4	20.4
Japan Synthetic Rubber Co.	22.0	33.3	11.1	29.2	16.4	12.8	*1,897	602	2,499	3.2	5.5	2.3	1.8	5.9
Sekisui Chemical Co.	9.7	34.6	24.9	42.0	0.5	41.5	*3,544	8,692	12,236	2.8	7.2	4.4	2.1	7.1
Ube Industries	11.6	12.7	1.1	57.7	63.0	*5.3	*8,005	*17,696	*9,691	4.0	5.4	1.4	1.4	4.3
Kao Corp.	30.0	43.6	13.6	3.7	0.1	3.6	450	2,155	1,705	7.2	6.9	*0.3	2.4	3.6
Fuji Photo Film Co.	39.7	67.0	27.3	1.5	0	1.5	*2,457	29,693	32,150	9.2	12.7	3.5	2.5	6.2
Shiseido Co.	50.8	55.5	4.6	0	0	0	2,424	9,756	7,332	10.9	2.1	*8.8	1.2	0.9
Average of 15 Companies	19.2	30.5	11.3	39.6	24.6	15.0	—	—	—	5.1	7.1	2.0	1.6	5.9

Textiles

(The three large companies further increase their resilience to business slumps and Kurabo Industries, in particular, shows a noticeable improvement of 30.4 points.)

In the textile industry, too, there are many companies which improved their financial conditions during the past 10 years. Among them, Kurabo Industries is outstanding with an improvement of 30.4 points and a boost in net worth ratio to over 50 percent.

Kurabo started to strengthen its financial status in 1981 when the present chairman, Eizo Makiuchi, was the president. At the time, with the support of the natural fiber boom, profits were piling up. In addition, Fr70 million in Swiss franc-denominated convertible bonds were issued in March 1985 and Y10 billion in domestic convertible bonds in October 1988 to further augment the owned capital through conversion.

However, because capital investments have increased during the past year or two and loans are being relied upon partially, the fiscal balance might turn slightly into the red. It can be noted that capital investments

amounted to Y12 billion in 1988 and Y10 billion in 1989, far surpassing the normal outlay of Y5 to Y6 billion. Investments are being used toward energy conservation, quality upgrading, meeting product demands for multiple varieties in small quantities, etc.

On the other hand, differences in management strategies of Asahi Chemical Inudstry Co., Toray Industries and Teijin Ltd., the three largest companies, can be gleaned from their net worth ratios, profit ratios to total liabilities and net worth and growth rates.

As for the recurring profit ratio to sales, the order will be Teijin (11.4 percent), Toray (9.4 percent) and Asahi (8.8 percent) but taking the operating profit ratio to sales, the order will be Asahi (9.5 percent), Teijin (8.9 percent) and Toray (8.4 percent).

In the sales growth rate, Asahi Chemical Industry is far ahead. In effect, Asahi worked on the expansion of the nontextile sector. Through expanded sales of housing construction materials, gum resins,etc., the nontextile ratio increased sharply from 58 to over 80 percent during the period under survey. Furthermore, the net worth ratio also rose. The outlook is that the fiscal balance will also be in the black during the fiscal year ending March 1990.

In contrast, Teijin faced difficulties in pulling back from diversified operations. Though slight, sales dropped. Textiles, synthetic products and pharmaceuticals showed profits but the improvement in the financial standing was due largely to the balance achieved at the reduced level of operations. There is a receivable surplus of Y4.8 billion in the fiscal balance, accounting for one-fourth of the recurring profits. Asahi Chemical Industry has a deficit of Y1.7 billion so the difference in the recurring profit ratio to sales lies in the fiscal balance difference.

Toray's sales increase also comes from the growth of the non-textile sector. With FY83's Y415.4 billion as the peak, sales of the textile division have been declining steadily until recently. The growth of non-textile items, such as plastics, mainly resins and polyester films, and synthetic products has covered that loss and earnings, in general, have increased by 37 percent.

Even if faced with inflationary or stagnant business conditions in the future, Asahi Chemical, Toray and Teijin have already built up considerable resistance to withstand.

Among those three companies, Asahi Chemical Industry has the lowest net worth ratio but still, it owns one-third of its capital. Through conversion of the warrant bonds amounting to $300 million and convertible bonds worth Fr200 million in Swiss francs issued in June 1988, the net worth ratio is being increased. The growth potential of the housing construction materials handled by the company is high and diversified operations are contributing to increased stability in management.

Table 9. Textiles

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Kurabo Industries	20.9	51.3	30.4	26.9	10.4	16.5	•2,381	•40	2,341	4.7	4.4	•0.3	No change	0.96
Mitsubishi Rayon Co.	13.8	34.5	20.7	49.1	31.2	17.9	•5,108	•411	4,697	5.3	2.4	•2.9	0.4	2.82
Teijin Ltd.	20.9	40.1	19.2	42.3	23.7	18.6	•7,047	6,687	13,734	3.9	5.1	1.2	•0.1	3.23
Gunze Ltd.	38.3	54.5	16.2	20.0	3.4	16.6	•1,314	3,120	4,434	10.1	5.9	•4.2	0.2	0.53
Toray Industries	31.7	45.3	13.6	25.3	17.0	8.3	•7,498	5,269	12,767	5 8	6.5	0.7	0.4	2.70
Wacoal Corp.	59.5	72.3	12.8	12.8	1.5	11.3	19	1,406	1,387	15.4	7.0	•8.4	0.9	0.22
Kuraray Co.	10.8	22.2	11.4	52.0	18.1	33.9	•6,519	1,051	7,570	3.7	5.7	2.0	0.3	5.95

Table 9. Textiles (Continued)

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Asahi Chemical Industry Co.	22.8	33.8	11.0	37.6	13.3'	24.3	*8,129	*1,665	5,464	5.1	9.1	4.0	0.9	3.63
Toyobo Co.	16.2	75.4	9.2	45.8	31.9	14.5	*5,484	*2,996	2,488	5.2	4.8	*0.4	0.5	0.39
Kanebo, Ltd.	11.6	11.1	*0.5	52.4	50.4	2.0	*9,167	*11,880	*2,713	1.8	6.1	4.3	0.8	—
Unitika, Ltd.	11.0	10.6	*0.4	47.7	54.0	*6.3	*7,722	*5,223	2,499	3.8	4.1	0.3	0.6	3.20
Average of 11 Companies	23.4	36.5	13.1	37.4	23.2	14.2	—	—	—	5.9	5.6	*0.3	0.5	2.81

Food Products

(Katokichi Co. and Ajinomoto Co. excel among companies which improved greatly and normally create a fiscal surplus.)

The net worth ratios of food companies have also improved greatly. Since the 1960's, giant U.S. and European food companies opened businesses one after another in Japan and at the time, the weak financial status of Japanese food companies was of great concern, i.e., the low net worth ratio was the prime object of criticisms. All of the food companies at the time carried heavy debts, had low net worth ratios and their recurring profits were held down by huge interest payments.

At present, however, Japanese food companies are not inferior to U.S. and European companies in financial conditions. The spread of capital increases through issues of shares at market prices has contributed greatly.

In the table [No. 10] on the food industry, 15 companies are listed in the order of improvements in net worth ratios (companies with irregular settlement methods have been excluded). Therefore, although the improvement rate is small, there are a number of companies, aside from the 15, with high net worth ratios. They include Nissin Food Products Co. (77.6 percent), Hokkaido Coca-Cola Bottling Co. (69.0 percent), First Baking Co. (66.6 percent), House Food Industrial Co. (57.5 percent), Nagatanien (55.3 percent), Chukyo Coca-Cola Bottling Co. (52.4 percent) and Ezaki Glico Co. (50.9 percent).

Furthermore, companies with a favorable fiscal balance which had been rare in the food industry 10 years ago are now so numerous as to be considered normal. The past weakness in net worth ratio of the food industry may be said to have been rectified now. The average ratio of loans to total liabilities and net worth for the 15 companies, which had been 26.3 percent 10 years ago, was reduced by over one-half to 10.7 percent at present. The past pressure of huge interest payments on recurring profits has also been lessened.

If a problem can be mentioned, that would be the drop of nearly 2 points in operating profit ratio to total liabilities and net worth. The food industry is supported by stable consumption, as heretofore, but the sales growth is not encouraging. The major reasons are that the increase in cheap imports because of yen appreciation and the cheaper quotes on foreign raw materials have contributed to cost reductions which, in turn, have lowered product prices and strained the domestic commodity market. That is fine in the sense of profit redemption to consumers but it is the biggest cause of lowering the operating profit ratio to total liabilities and net worth.

Katokichi Co., which is the leader in improvement rate, is a large manufacturer of frozen cooked foods, mainly fried shrimps. In addition to handling products which are well suited to current consumption trends, the company's location in Kagawa Prefecture is favorable as a collection point of food resources and advantageous from the cost standpoint.

In general, since costs are high for companies using many state protected agricultural products, the growth of many food companies is stymied. From the standpoint of competitiveness with imported products and independent development capability, Toyojozo Co., with a strong pharmaceuticals department, and Ajinomoto Co., with pharmaceuticals and chemicals divisions, are in the forefront.

The financial status of Coca-Cola bottlers, led by Mikuni Coca-Cola Bottling Co., which learned from the U.S. Coca-Cola Bottling Co., is highly favorable. In the edible oil field which has violent market fluctuations, Fuji Oil Co. and Nisshin Oil Mills are proceeding with financial improvements so it appears that the success or failure in effecting improvements is not necessarily dependent on the business environment.

Table 10. Food Products

Company	Ratio of Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Katokichi Co.	13.9	56.6	42.7	22.8	0.1	22.7	*332	895	1,227	8.0	6.1	*1.9	1.9	5.2
Toyojozo Co.	14.8	44.7	29.9	39.8	15.8	24.0	*1,221	*261	960	6.1	11.7	5.6	1.6	0.8
Nippon Flour Mills Co.	30.2	55.6	25.4	38.8	16.6'	22.2	*281	470	751	10.9	4.9	*5.7	1.4	0.8
Taito Co.	2.4	27.2	24.8	47.7	32.4	15.3	*1,061	*403	656	9.4	6.4	*3.0	0.8	0.7
Ajinomoto Co.	30.3	54.0	23.7	9.7	0.9	8.8	1,572	11,525	9,953	7.2	3.8	*3.4	1.3	1.7
Meiji Seika Kaisha	32.2	53.6	21.4	23.4	0.7	22.7	*1,703	302	2,005	7.0	2.0	*5.0	1.1	0.8
Fuji Oil Co.	35.2	53.2	18.0	14.6	7.8	6.8	*463	931	1,394	12.8	8.8	*4.0	1.2	2.2
Yamazaki Baking Co.	35.8	53.2	17.4	23.1	12.6	10.5	*840	330	1,170	11.2	9.1	*2.1	2.7	2.3
Morinaga Milk Industry Co.	14.5	30.6	16.1	27.6	9.0	18.6	*1,422	393	1,815	3.2	3.5	0.3	1.3	2.7
Nisshin Oil Mills	33.1	48.9	15.8	1.6	2.2	*0.6	474	1,495	1,021	7.7	4.5	*3.2	1.0	0.8
Mikuni Coca-Cola Bottling Co.	43.9	58.5	14.6	13.2	0	13.2	*11-8	271	389	17.7	18.1	0.4	1.8	2.4
Nisshin Flour Milling Co.	30.6	44.2	13.6	28.4	11.4	17.0	*550	1,745	2.295	9.9	7.1	*2.8	1.4	1.6
Meiji Milk Products Co.	20.0	32.3	12.3	17.1	3.7	13.4	*1,141	135	1,276	5.2	3.7	*1.5	1.3	1.3

Table 10. Food Products (Continued)

Company	Ratio of Net Worth			Degree of Dependrace on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Nippon Formula Feed Mfg. Co.	15.1	27.1	12.0	39.3	37.6	1.7	*539	*344	195	1.7	2.2	0.5	0.8	1.7
Sanraku, Inc.	16.5	27.7	11.2	47.6	10.4	37.2	*985	*13	972	2.8	0.4	*2.4	1.6	2.1
Average of 15 Companies	24.5	44.5	20.0	26.3	10.7	15.6	—	—	—	8.1	6.2	*1.9	1.4	1.6

General Trading Companies

(Four companies—Sumitomo Corp., Mitsubishi Corp., C. Itoh & Co. and Marubeni Corp.—show surpluses in fiscal balances during April-September 1989 fiscal period and Mitsui & Co. is on an upswing.)

During the past 10 years, the financial positions of trading companieshave been strengthened substantially. The net assets (total capitalization) of Mitsui & Co., which had been Y172.7 billion during the fiscal year ended March 1979, doubled to Y343.4 billion by the end of the April-September 1989 term. During the same 10-year period, hefty jumps were shown with Mitsubishi increasing by 2.7 times from Y178.8 toY482.6 billion, C. Itoh by 5.3 times from Y70.5 to Y373.1 billion, Sumitomo by 6.7 times from Y69 to Y459.3 billion and Marubeni by 4.9 times from Y84.7 to Y417.9 billion.

Also, during the same period, the net worth ratio was increased by Mitsui from 4.5 to 6.0 percent, Mitsubishi from 5.0 to 5.7 percent, C.Itoh from 3.0 to 8.0 percent, Sumitomo from 4.7 to 11.3 percent and Marubeni from 3.7 to 8.1 percent.

The owned capital of these companies increased in this manner because, in addition to capital augmentation through increased profits, the companies were able to procure huge funds at low cost through large public subscriptions as well as convertible and warrant bonds with the growth of the capital market. For example, Sumitomo carried out the largest floatation of loans among Japanese corporations with public offerings in March 1989 of 80 million shares and issuance in June of convertible bonds worth Y100 billion in Japan and dollar-denominated warrant bonds worth $1.5 billion in foreign countries. Around 10 years ago, the scale of the capital market was small and only about 10 or 20 million shares could be offered publicly to increase capital. If the price of one share were Y300, procurable funds amounted to between Y3 and Y6 billion. With only that amount, the net worth ratio could be raised only slightly.

With capital procurable at low cost in this manner, the interest burden of each company decreased. For example, during the April-September 1989 mid-term period, C. Itoh was Y1.2 billion and Marubeni was Y4.5 billion in the black with both companies showing a surplus in the fiscal balance for the first time. Thus, of the nine large trading companies, firms in the black increased to four, namely, Sumitomo, Mitsubishi, C. Itoh and Marubeni.

Then, what will become the focal point of each company in strengthening its financial status in the future? Shiro Arai, head of the currency and securities division of Marubeni, which announced plans this January in its "New Mid-Term Management Guideline" to increase owned capital to Y800 billion and the net worth ratio to 14 percent in FY90, states,"To make possible capital procurement at even lower interest rates, we will try to obtain better bond ratings. To accomplish that, we will upgrade our financial status."

Joji Akisawa, head of C. Itoh's accounting division, mentions plans with similar aims. Improving the financial status means, for one thing, to refrain from expanding sophisticated financial management activities recklessly. Recently, companies have been engaged heavily in sophisticated financial management with operating funds amounting to between Y1 and Y3 trillion obtained through large-volume issues of commercial papers. No risk is involved in earning guaranteed profits through large-term deposits. However, as shown in the table [No. 11], every company worsened its operating profit ratio to total liabilities and net worth during the past 10 years. This is due to the

bloating of total assets through sophisticated financial management. Therefore, each company intends to keep such financial management at a reasonable level in order to prevent deterioration of such financial indexes.

Also, C. Itoh's accounting division chief Akisawa states, "We shall strive to prevent inventory glutting which leads to increased interest burden and we will tighten up on investment securities."

Table 11. General Trading Companies

Company	Ratio to Net Worth			Degree of Dependence on Loans			Financial Balance			Operating Profits to Total Liabilities and Net Worth			10-Year Growth Rate	
	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	10 Years Ago (Y million)	Present (Y million)	Increase or Decrease (Y million)	10 Years Ago (%)	Present (%)	Degree of Improvement (Points)	Sales (Times)	Recurring Profits (Times)
Sumitomo Corp.	4.7	11.5	6.8	37.1	55.7	*18.6	*8,939	10,788	19,727	1.9	1.1	*0.8	2.5	2.9
C. Itoh & Co.	3.0	8.8	5.8	44.7	55.8	*11.1	*25,303	*8,382	16,921	1.4	1.3	*0.1	2.4	8.3
Marubeni Corp.	3.7	8.6	4.9	45.1	55.9	*10.8	*29,731	*1,444	28,287	1.5	1.1	*0.4	2.3	2.4
Toyo Menka Kaisha	3.1	6.8	3.7	49.5	53.1	*3.6	*9,438	*5,791	3,647	1.1	1.0	*0.1	2.4	6.1
Nichimen Corp.	3.6	6.0	2.4	43.1	54.0	*10.9	*5,734	*3,443	2,291	1.2	1.1	*0.1	2.6	3.9
Mitsui & Co.	4.5	6.6	2.1	45.6	45.4	0.2	*18,208	12,690	5,518	0.7	1.4	0.7	1.8	3.4
Nissho Iwai Corp.	3.2	5.0	1.8	41.1	52.2	*11.1	*13,299	*11,792	1,507	1.1	1.0	*0.1	2.6	3.4
Mitsubishi Corp.	5.0	6.1	1.1	36.4	54.7	*18.3	*217	5,663	5,880	1.0	0.7	*0.3	1.6	1.9
Kanematsu-Gosho Ltd.	2.6	2.2	*0.4	41.5	63.2	*21.7	*10,459	*10,031	428	1.1	1.2	0.1	2.1	5.5
Average of 9 Companies	3.7	6.8	3.1	42.7	54.4	*11.7	—	—	—	1.2	1.1	*0.1	2.1	3.0